

Creditreform Corporate Issuer / Issue Rating

Telecom Italia S.p.A. (Group)

Creditreform Rating
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Rating object	Rating information	
Telecom Italia S.p.A. Creditreform ID: 400981336 Incorporation: 29 October 1908 (Main) Industry: Telecommunications CEO: Luigi Gubitosi <u>List of rating objects:</u> Long-term Corporate Issuer Rating: Telecom Italia S.p.A. (Group) Long-term Corporate Issuer Rating: Telecom Italia Finance S.A. Long-term Local Currency Senior Unsecured Issues	Corporate Issuer Rating: BB+ / stable	Type: Initial rating Unsolicited
	LT LC Senior Unsecured Issues: BB+	Other: n.r.
	Rating Date: 14/12/2018 Monitoring until: Withdrawal of the rating Publication: 20/12/2018 Rating methodology: CRA "Corporate Issuer Ratings" CRA "Non-financial Corporate Issue Ratings"	
	Rating history: www.creditreform-rating.de	

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Abstract

Company

Telecom Italia S.p.A., officially named TIM S.p.A. ("Telecom Italia", "TIM", "the Company", "the Group"), headquartered in Milan and Rome, was founded in 1994 through the merger of the former Italian state monopoly telephone operator with four other state-owned telecommunications companies. Currently it provides telephony and mobile services as well as internet access via DSL and fibre data services. It is the largest Italian telecommunications services provider in terms of revenues and the number of subscribers. As of September 2018 the Company recorded 32 million mobile lines (31% of the market share) and 19.2 million accesses to the fixed network (45% of the market share) in Italy. The Company, through its subsidiary TIM Brasil, is one of the major mobile phone operators in Brazil and the number one in the Brazilian market by 4G coverage.

In 2017, the Company managed to generate revenues of EUR 19,828 million (2016: EUR 19,025 million) and a profit for the year of EUR 1,287 million (2016: EUR 1,966 million).

Rating result

The current rating of BB+ attests Telecom Italia S.p.A. a satisfactory level of creditworthiness, which represents a medium default risk.

The rating result is based on the strong position of Telecom Italia in its relevant geographical markets, on the high level of product diversification, and on its leading technological position. The Company has improved its operational performance through structural reorganisation and focus on sophisticated IT-solutions, in addition to traditional services and benefits from its strong position in Italian infrastructure. The new strategic plan with a focus on digitalisation and associated cost efficiency, as well as on optimisation of capex, should enable the Company's faster deleveraging.

Our assessment is, however, offset by the increased competition both in the mobile and fixed network business areas, which could bring a downward pressure on the Company's EBITDA and on its deleveraging capacity. The continuous necessity of high capex in infrastructure and frequencies and the expected higher investments in the course of the 5G rollouts have a dampening effect on our rating. Finally, Italy¹ and Brazil have been continuously marked by political and economic instability with increased currency and interest rate risks. All these factors have led to the goodwill write-down on

¹ BBB-/stable, Sovereign Rating CRA 31 August 2018

the Core Domestic business amounting to EUR 2 billion in the third quarter of 2018, which also has put a strain on our rating.

Outlook

The one-year outlook of the rating is stable. This outlook is based on our expectation of the Company's largely stable operative development and its ability to continue the digitalization process, which should bring additional cost savings and capex optimization.

Rating-relevant factors

Table 1: Financials of Telecom Italia S.p.A. | Source: TIM's annual report 2017, standardized by CRA

Excerpts from the financial ratios analysis 2017

- + Increased revenues
- + Solid EBITDA
- + Improved equity ratio
- + Slightly decreased net financial debt
- High capital intensity
- Fall of return on investment
- Negative impact of one-off effects

Financial ratios ¹ extract Basis: consolidated annual report as per 31/12 (IFRS)	CRA standardized figures ²	
	2016	2017
Revenues	EUR 19,025 million	EUR 19,828 million
EBITDA	EUR 8,259 million	EUR 7,787 million
EBIT	EUR 3,968 million	EUR 3,344 million
EAT	EUR 1,966 million	EUR 1,287 million
Total assets	EUR 55,275 million	EUR 53,599 million
Equity ratio	16.6%	17.5%
Capital lock-up period	93.6 days	85.9 days
Short-term capital lock-up	35.2%	34.0%
Net debt / EBITDA adj.	4.9	4.6
Return on investment	5.6%	5.2%

General rating factors

- + Strong market position in domestic market
- + High degree of diversification, integrated broadband and telecommunication provider
- + Focus on sophisticated IT-solutions
- + State-of-the art use of technology (bundled offers, leading 4G-coverage, a pioneer in the introduction of 5G)
- + High EBITDA generation
- + High market entry barriers (licenses, concessions and permits)
- + Good access to financial markets
- + Overall increasing demand for telecom services
- Dependency on economic trends
- Highly competitive market (also fostered by regulators)
- High capital intensity with high ongoing investments in infrastructure and spectrum
- Decreasing traditional voice services
- Elevated currency and interest rate risks
- Regulatory risk exposure
- Continuing volatility of the financial markets, country risks

Current factors (rating 2018)

- + Business development in line with objectives

² For analytical purposes, CRA adjusted the original values in the financial statements in the context of the financial ratio analysis.

- + Optimisation of debt structure
- + Adequate liquidity reserves

- Increased competition through the entrance of Iliad, and potentially competition through Open Fiber
- High leverage
- Exceptional costs (restructuring and optimization, currency effects, litigations)
- Impairment on the Core Domestic division
- Dissent associated with the extent of the separation of fixed network

Prospective rating factors

- + Cost reductions and capex optimisation leading to increased operating cash flow
- + Growth potential through further development of the ultra broadband services, rollout of 5G and special IT-solutions
- + Growth potential in wholesale and in international markets

- Risk of deterioration of operating performance due to increased competition
- Increasingly strict regulatory requirements
- Unexpected increase in capex
- Pending litigations (contingency risk)

Best-case scenario

Best case: BB+

Worst case: BB

In our best-case scenario for one year, we assume a rating of BB+. We assume that the Company will be able to offset the falling revenues in traditional services through revenues from innovative convergent products and IT-solutions, thus maintaining its largely stable operative performance. Our assessment is constrained by country risks, as well as by increased competition, unfavourable regulatory decisions and the volatility of financial markets, which have already led to the write-down on Core Domestic business goodwill.

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Worst-case scenario

In our worst-case scenario for one year, we have assumed a rating of BB. This could be the case if key financials deteriorate far more than we had expected following an increase in debt, or due to weak operative results. Any unfavourable regulatory change, litigation process outcome, or poor economic condition in Telecom Italia's key markets which would significantly affect the market position of the Company and, as a result, the financial figures, could have a negative impact on our rating assessment.

Business development and outlook

Telecom Italia is currently experiencing a critical phase of rebuilding the Company's structure and revising of its strategic goals in order to develop the Company's digitalization and retain a leading market position in the dynamic and challenging telecommunications market.

Taking into consideration the one-off character of some expenses which significantly affected the Company's performance Telecom Italia recorded an overall positive development in the financial year 2017.

Total revenues increased by EUR 803 million, or 4.2%, to EUR 19,828 million (2016: EUR 19,025 million), driven by the positive performance of the Domestic business (+EUR 348 million) as well as of the Brazil business (+EUR 455 million, including a positive exchange rate effect of EUR 284 million). EBITDA amounted to EUR 7.8 billion, a decrease of 2.6% (2016: EUR 8,002 million). The main reason for the drop of EBITDA were the elevated non-recurring expenses of EUR 883 million compared to the previous year (2016: EUR 198 million). Without one-off effects, the organic change in EBITDA would have been +4.6%. Non-recurring expenses in 2017 included primarily expenses for restructuring and rationalization, associated especially with employee expenses and provisions in the

course of implementation of the new restructuring plan for 2018-2020. Another significant reason for the lower EBITDA was the rise on acquisition of goods and services from EUR 7,793 million to EUR 8,388 million and of its relation to the revenues (42.3%, 2016: 41.0%), which was driven mainly by the rise of acquisition prices of products for resale. Including the impairment losses on intangible assets of EUR 30 million, the total amount of non-recurring expenses amounted to EUR 913 million (2016: EUR 185 million). EBIT decreased by 11.6% compared to 2016 (EUR 3.3 billion, 2016: EUR 3.7 billion). The net finance expenses increased significantly to EUR 1,495 million (2016: EUR 907 million), affected by the absence of the positive impact of EUR 565 million, connected to the fair value measurement of an option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. in 2013 for EUR 1.3 billion and converted in November 2016. Consequently, the annual result decreased by 34.5% to EUR 1,287 million (2016: EUR 1,919 million).

Both business units made positive contributions to the overall result.

Table 2: The development of business units in 2017 | Source: TIM

EUR million	Domestic		Brazil	
	2016	2017	2016	2017
Revenues	15,006	15,354	4,047	4,502
EBITDA	6,698	6,171	1,325	1,635
EBITDA margin	44.6	40.2	32.7	36.3
EBIT	3,376	2,772	368	535
EBIT margin	22.5	18.1	9.1	11.9

The growth of revenues of the Domestic business unit was mainly driven by the increased revenues from mobile services (EUR 4,655, an increase of EUR 75 million) and from product sales, reflecting growth in sales of smartphones and other devices (EUR 1,354 million, an increase of EUR 226 million). The revenues from sales in the fixed-line market decreased to EUR 9,345 (2016: EUR 9,952 million) against the background of the overall decline in traditional voice service (EUR -279 million), mainly due to the falling traditional accesses. It was offset by higher revenues from information and communication technology (ICT) solutions and by higher revenues from innovative data connectivity services, driven by the growth of the ultra-broadband customer base (+1.2 million to 3.1 million). Most of the non-recurring expenses (EUR 912 million) related to Domestic business, which caused the deterioration of EBITDA- and EBIT-margins for this division.

The main reason for the growth of the Brazil business unit was the increase of the mobile Average Revenue per User (ARPU) from 18.0 reais to 20.2 reais (+12.2%) in 2017 due to the general repositioning towards the postpaid segment, and initiatives aimed at increasing data usage. The total number of lines decreased from 63,418 thousand to 58,634 thousand, particularly due to the number of prepaid customers (-7,701 thousand), which was partially outweighed by the increase of lines in the postpaid segment (+2,918 thousand).

In April 2018, the new strategy plan for 2018-2020 was released. The Company's transformation through the digitalization of all processes and creating a best-in-class customer experience (DigiTIM), as well as the optimization of the financial position, became the main focus of the Company in the dynamic industry environment. The customer offer, based on TIM's well-developed network with fibre, 4.5G, as well as on the envisaged early adoption of 5G shell enable greater convergence, i.e. combined fixed and mobile services with additional video, music and gaming content. In the business segment, the Company is aiming to develop IT services based on the combination of fixed, mobile and IT convergence and on the development of ICT and cloud services, while the fibre customer base is expected to triple. In cooperation with other leading companies in the industry, the Company plans to enhance the adoption of new technologies such as 5G, Internet of Things, Industry 4.0, robotics and artificial intelligence. Simultaneously, cash generation capacity should be strengthened through cost control and optimisation of investments. While the domestic service revenues are expected to remain broadly stable, the Company intends to grow in service revenues from TIM Brasil and INWIT. Finally, the total debt shall be significantly reduced. It remains to be seen whether the

ambitious plans of the broad digitalization in order to retain the position of a technology leader is compatible with the aim of consolidation of the Company's financial position.

In the first nine months of 2018 total revenues amounted to EUR 14,077 million, down 3.1% compared with the same period of 2017 on the same accounting basis³. While the development of the Domestic business unit was largely stable, the decline of EUR 460 million, a result of the depreciation of the Brazilian real, was posted by the Brazil business unit. The development of the Domestic business unit was characterized by the further decline in revenues from traditional voice services (EUR -237 million), which was offset by the revenues from ICT solutions (EUR +70 million) and innovative services for data connectivity, based on the increasing number of ultra-broadband customers (+1.2 million customers, EUR +214 million). The Company recorded a total of EUR 128 million in non-recurring expenses, consisting of the provision (EUR 74.3 million) made for imposed fines and of the charges related to the company reorganisation (EUR 54 million). As a result, EBITDA (EUR 5,778 million) dropped by 2.9% compared with 2017 on the same accounting basis. EBIT amounted to EUR 617 million (-73.1% on the first nine months of 2017) and the net consolidated result attributable to the owners of the parent company amounted to EUR -868 million. In addition to the before-mentioned one-off-effects, the result for the period was negatively influenced by the EUR 2 billion write-down on the goodwill of the Core Domestic business. The impairment test was based on the interim information as of 30.09.2018, taking into consideration some partially significant deviations from the forecasts originally contained in the Company's strategy. The reasons for the impairment loss are multifarious: they comprise the continuous tension and volatility of the financial markets in Italy and Europe which have led to a rise in interest rates on the one hand, and on the other hand the increase in competition in the relevant industry, as well as delays in other efficiency projects and some regulatory changes which altogether led to negative adjustments concerning the expected future economic development of the Core Domestic business.

In the last few months, some considerable dissents between the two major shareholders Vivendi and Elliott have emerged, concerning the announced strategy of the Company and the possible separation of the fixed network business. Some members of the Board of Directors advocate a more radical conversion of the Company and for the separation of most of the fixed network, while others support retaining control over the fixed network. The revocation of delegation power from Amos Genish, and the appointment of Luigi Gubitosi as a new CEO, followed in November 2018. The consequences of this situation remain to be seen. The arising uncertainties concerning the Company's management and the way in which the Company's strategy is to be implemented could put additional downward pressure on the rating.

Structural risks

TIM is a joint-stock company, with its registered head office in Milan and its head secondary office in Rome. According to its by-laws, the duration of the Company extends until 31 December 2100. The Telecom Italia shares are quoted on the Milan Stock Exchange and on the New York Stock Exchange. They are included in more than 50 Italian and international indexes.

The main shareholder of Telecom Italia is Vivendi S.A., an integrated media group based in France, with an interest of 23.94% in the Company's ordinary share capital and in its voting rights. Among the significant equity shareholders are Paul E. Singer, who holds 8.85% of the TIM's shares through Elliot Capital Advisors LP, followed by Casa Depositi e Prestiti S.p.A. with 4.93% of the shares. The rest of the shares are in free float, mainly Italian and foreign institutional investors.

The Company's governing bodies are the Board of Directors (currently consisting of 16 members) and the Board of Statutory Auditors (currently featuring 5 members), both elected for a term of three years, and employed on average 54,946 people over the course of the business year 2017 (2016: 57,855).

The Group's activities comprise two major business units: Domestic and Brazil. The Domestic business unit consists of two sub-divisions: Core Domestic with Consumer, Business, Wholesale and Other (INWIT S.p.A. and support structures) and International Wholesale – Telecom Italia Sparkle

³ In 2018, the new IFRS 9 and IFRS 15 standards were adopted.

Group. The business unit operates in the sphere of voice and data services on fixed and mobile networks for retail customers as well as for other wholesale operators. Operations such as office products and services for Information Technology under the brand name Olivetti, operations in the electronic transmission equipment both for TIM and other operators (through INWIT S.p.A.) as well as the development of fiber optic networks for wholesale Italian and international customers, round up the services within the Domestic business unit. The Brazil business unit provides mobile telephone services as well as services of fiber optic data transmission and residential broadband services.

The Company reports its financial statements in accordance with IFRS and has to comply with high legislative, regulative and corporate governance standards, especially in Italy and Brazil as well as in other countries to a lesser extent. Structural risks are associated with market regulation, obtaining licenses and spectrum, as well as with the maintenance of modern infrastructure. According to publicly available information regarding corporate governance and compliance measures, we assume sufficiently developed structures with regard to risk management, accounting and controlling as well as other administrative and operational functional areas, and do not see any core risks in connection with the Company's structure.

Business risks

In addition to the general economic and political conditions in Italy and Brazil, the activities of Telecom Italia are determined by the ongoing innovative technological achievements such as M2M, Big Data Analytics, Cloud Computing and Internet of Things, supporting global trends to digitalization, and the sharing and interconnection economy. The Italian market is characterized by relatively high mobile penetration rates and by the steady migration of customers from DSL to fibre broadband. The Company has to keep up with the rapid changes in the industry, which demand intensive research and development and considerable capital expenditure in order to improve mobile and fixed broadband infrastructure to make it suitable for the future.

The Italian mobile market has experienced significant changes since the merger of Wind and 3 Italia (becoming Wind Tre), and the subsequent market entrance of the French provider Iliad as a fourth mobile infrastructure company alongside TIM, Vodafone and Wind Tre. The entrance of Iliad, whose customer base already numbered 2 million three months after the market launch in May 2018, has considerably disrupted the market. Despite the entrance of Iliad, the Company managed to maintain its revenues from mobile services in the first nine months of 2018 at the level of the previous year. Nevertheless, should Iliad continue to grow aggressively, it will pose a threat to the Company's market share and destroy the results of its cost reduction programme.

The fixed market also has become more competitive. Alternative network operators, such as Open Fiber S.p.A and Infratel Italia S.p.A., supported by Italian Government, have started to implement plans to develop alternative ultra-broadband telecommunication networks in the main cities in Italy, and in so-called "white areas" in which private operators had not envisaged the independent construction of ultra-broadband within the next three years. Currently, the Company benefits from its strong position in the local infrastructure. With the deployment of Open Fiber, the risk of loss of market share and deterioration of profitability following potential renegotiation of wholesale agreements in its most important business area is a considerable one.

Further competition comes from Over-the-Top (OTT) service providers, which offer content services in internet without offering a network infrastructure.

The emergence of the new infrastructure operators and the increased number of OTTs mean additional pressure on margins for traditional products in addition to the risk of customer migration. Telecommunication companies have to rethink their strategies and focus more heavily on customer retention through offering innovative products, bundling services, and combining their services with Media & Entertainment, IT, and digital services. All of these factors could exert pressure on the Company's income situation.

In October 2018, the Ministry for Economic Development made spectrum available for 5G developments, and has raised a total of EUR 6.6 billion in the course of the auction. Telecom Italia were awarded frequencies at 3,700 MHz, 26 GHz and 700 MHz band for a total amount of EUR 2,400 million. TIM must pay approximately EUR 480 million in 2018 and the bulk of the remainder in 2022,

when the frequencies become available for use. This could place a strain on the Company's financials.

The Company is involved in a range of disputes and litigations with regulators, competitors and other parties, and is the subject of a number of investigations by judicial authorities. The outcome of these litigations is uncertain and could cause significant financial pressure to the Company.

Financial risks

The Company is exposed to general financial risks such as currency exchange rate risks, counterparty credit risks, and liquidity, rating, and debt covenant risks. The Company's policy is aimed at minimizing those risks, among others through fully hedging exchange rate risk, optimizing of the interest risk through diversification of the portfolio, and through the use of derivative financial instruments.

CRA adjusted the original values in the financial statements for the purposes of the financial ratio analysis. Contrary to our normal practice, we deducted the goodwill shown on the balance sheet from the equity by 50%, suggesting, despite impairment as of 30 September 2018 a certain recoverability of the goodwill.

The Company is capital intensive. Approximately 72% of its balance sheet total is tied up in long-term assets, reflecting the specific conditions of the business and emphasising the importance and high levels of investment required for the development and maintenance of the infrastructure facilities. The asset coverage ratio of 61.8% as of 31 December 2017 is improvable in our view, despite the Group's high degree of fixed assets intensity.

The Company's capital intensity is partly offset by the long-term character of its obligations (70% of the total obligations). CRA calculated an adjusted equity for 2017 of EUR 9,359 million (2016: EUR 9,159 million), which accounts for 17.5% of the balance sheet total (2016: 16.6% when adjusted by CRA). Besides the total comprehensive income, changes in the consolidated equity have been mainly impacted by the dividend payments of EUR 230 million.

Telecom Italia has financed itself mainly through bank loans and bonds. The nominal repayment amount of the bonds has decreased as of 31 December 2017 by EUR 642 million to EUR 21,775 million (EUR 21,555 million as of 30 September 2018). Most of the bonds are part of the EMTN programme with a total amount of EUR 20 billion. TIM also has bilateral term loan agreements and overdraft facilities with different banks, used for financing current business, as well as agreements with factoring companies. Besides these facilities, TIM has, as an additional financial cushion, a syndicated revolving credit facility of EUR 5 billion, expiring in January 2023, which was not drawn down as of 30 September 2017.

Against the background of TIM's high capital intensity and the necessity to maintain and continuously develop its infrastructure, the yearly capex expenses are significant. They amounted to EUR 5,701 million in 2017, EUR 4,876 million in 2016, and EUR 5,197 million in 2015. Consequently, the ratio of free operating cash flow (EUR 2,496 million in 2017, EUR 2,856 million in 2016 and EUR 1,974 in 2015) to TIM's adjusted net financial debt (EUR 25,308 million as of 31 December 2017, EUR 25,190 as of 30 September 2018) of approximately 10x remains in need for improvement.

The Company strives to improve this ratio and to reduce indebtedness in the current- and medium-term, mostly through capex optimization and cost savings. It remains to be seen whether the Company will be able to realize this objective, taking into consideration the necessity to respond to the demands of the dynamic and highly competitive market, in light of the upcoming roll out of 5G and the payments for frequencies for a total of EUR 2.4 billion, among others.

Issuer / issue rating details

Issuer rating of Telecom Italia Finance S.A.

Telecom Italia Finance S.A. (“the Issuer”) is a wholly-owned direct subsidiary of TIM, which was incorporated in the Grand-Duchy of Luxembourg on 2 June 2000 and governed by Luxembourg law. The Issuer’s principal business activity is to raise funds and to act as a general financing vehicle for the Group. As a wholly owned subsidiary of TIM, the Issuer is dependent on the performance of the Group and the ability of its members to generate sufficient income to satisfy its payment obligations to other capital market participants. The Issuer’s financial statements are fully consolidated in the financial statements of the Group. For these reasons, we derive the rating of Telecom Italia Finance S.A. from the unsolicited corporate issuer rating of TIM, e.g. BB+ with stable outlook.

Issue rating

This issue rating is exclusively valid for the long-term senior unsecured issues denominated in Euro, issued by Telecom Italia S.p.A. and by Telecom Italia Finance S.A., which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The Notes have been issued within the framework of the EMTN Programme. The total nominal value of the bonds issued must not exceed EUR 20 billion. Notes issued by Telecom Italia Finance S.A. are unconditionally and irrevocably guaranteed by Telecom Italia S.p.A. The most recent prospectus from 8 June 2018 for the EMTN Programme includes a cross-default mechanism and restrictions on security interests.

We have provided the EUR long term local currency senior unsecured issues, issued by Telecom Italia S.p.A. and Telecom Italia Finance S.A., with a rating of BB+. This decision is based on the corporate rating of TIM Group. Other types of debt instruments or issues denominated in other currencies have not been rated by CRA.

Overview

Table 3: Summary of CRA Ratings | Source: CRA

Rating Object	Details Information	
	Date	Rating
Telecom Italia S.p.A. (issuer)	14/12/2018	BB+ / stable
Telecom Italia Finance S.A. (issuer)	14/12/2018	BB+ / stable
Long-Term Local Currency Senior Unsecured Issues	14/12/2018	BB+
Other	--	n.r.

Table 4: Overview of TIM’s EMTN Programme | Source: TIM, prospectus dated 6 June 2018

Issue Details			
Volume	EUR 20,000,000,000	Maturity	Depending on the respective bond
Issuer	Telecom Italia S.p.A. Telecom Italia Finance S.A.	Coupon	Depending on the respective bond
Arrangers	J.P. Morgan Securities plc	Currency	Depending on the respective bond
Credit Enhancement	none	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes that will be issued by Telecom Italia S.p.A. or by Telecom Italia Finance S.A. under the current EMTN Programme, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT

LC senior unsecured Notes issued under the EMTN Programme. Notes issued under the Programme in any currency other than Euro, as well as other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Financial ratios analysis

Table 6: Financial ratios of Telecom Italia S.p.A. (Group) | Source: Telecom Italia S.p.A., standardized by CRA

Asset Structure	2014	2015	2016	2017
Fixed asset intensity (%)	68.31	69.92	73.96	75.20
Asset turnover	0.41	0.37	0.35	0.38
Asset coverage ratio (%)	49.63	21.69	59.27	59.09
Liquid funds to total assets (%)	11.84	9.65	10.62	9.34
Capital Structure				
Equity ratio (%)	8.91	11.80	16.57	17.46
Short-term-debt ratio (%)	28.27	30.12	24.19	24.96
Long-term-debt ratio (%)	25.00	3.37	27.27	26.97
Capital lock-up period (in days)	141.72	82.15	93.62	85.86
Trade-accounts-payable ratio (%)	15.44	7.93	8.83	8.70
Short-term capital lock-up (%)	28.93	52.21	35.22	33.99
Gearing	8.90	6.66	4.39	4.19
Leverage	13.92	9.64	7.06	5.88
Financial Stability				
Cash flow margin (%)	26.42	22.88	32.33	29.77
Cash flow ROI (%)	10.77	8.32	11.51	11.38
Debt / EBITDA adj.	5.62	8.20	5.61	5.13
Net Debt / EBITDA adj.	4.89	7.30	4.89	4.55
ROCE (%)	14.72	5.87	11.98	12.84
Debt repayment period	8.82	8.90	6.35	7.66
Profitability				
Gross profit margin (%)	58.77	59.84	62.44	61.03
EBIT interest coverage	0.98	0.44	1.33	1.31
EBITDA interest coverage	1.91	1.44	2.77	3.06
Ratio of personnel costs to total costs (%)	14.11	15.49	15.00	14.38
Ratio of material costs to total costs (%)	42.65	41.97	39.61	40.94
Return on investment (%)	6.66	3.62	5.64	5.23
Return on equity (%)	36.94	11.56	24.95	13.90
Net profit margin (%)	6.42	3.25	9.99	6.28
Operating margin (%)	20.36	8.88	20.17	16.32
Liquidity				
Cash ratio (%)	31.38	21.13	29.64	26.73
Quick ratio (%)	109.38	87.67	89.02	79.10
Current ratio (%)	112.08	99.88	107.66	99.38

Appendix

Rating history

Corporate issuer rating of Telecom Italia S.p.A.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	14/12/2018	20/12/2018	Withdrawal of the rating	BB+ / stable

Corporate issuer rating of Telecom Italia Finance S.A.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	14/12/2018	20/12/2018	Withdrawal of the rating	BB+ / stable

Rating of LT LC senior unsecured issues of Telecom Italia S.p.A. and Telecom Italia Finance S.A.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	14/12/2018	20/12/2018	Withdrawal of the rating	BB+

Regulatory requirements

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the Issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the last annual report of the Issuer, the basis prospectuses and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology and the "Corporate Issuer Rating" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Elena Alexeenco (e.alexenco@creditreform-rating.de) and Artur Kapica (a.kapica@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 14 December 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until CRA removes the rating and sets it to non-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Please note:

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1. Annual report
2. Website
3. Internet research

Corporate Issue rating:

1. Issuer corporate rating incl. information used for the Issuer corporate rating
2. Documents on issues / instruments

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